

Summary

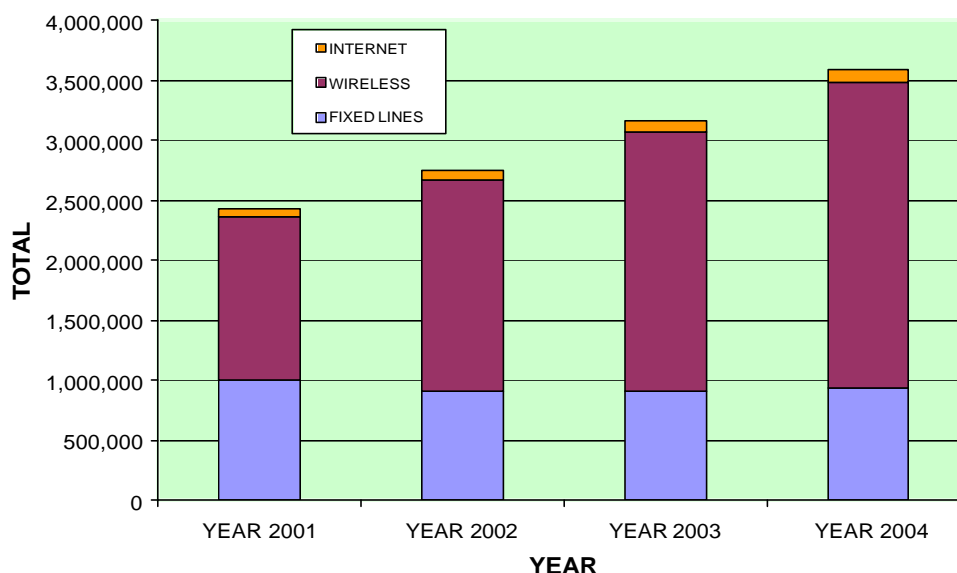
The telecommunications industry in the Dominican Republic has shown significant dynamism and the market has been characterized by greater competition, price reductions, and the introduction of new technologies. The market for telephone sets is influenced by the growth of the telecommunication sector and increased teledensity. Due to the country's import-dependent nature, there is intense competition among foreign suppliers, especially in the wireless sector.



Market Overview

The Central Bank reported that the telecommunication industry contribution to the GDP value added has been growing at an average of 20 percent in the last five years. As a result, telecommunications now makes up to 10.4 percent of the Dominican GDP versus just 5.8 percent in 2000. Growth is more significant in the mobile sector where the number of wireless subscribers in 2004 was more than three times the number of wireless subscribers in 2000. The country has also seen steady Internet growth, showing an average annual growth rate of 15 percent between 2000 and 2004. As a result, teledensity in the Dominican Republic has increased from 20.0 percent in 2000 to 39.5 percent in 2004 according to the Dominican Institute for Telecommunications (INDOTEL).

TELEPHONY STATISTICS



*Total number of lines by each sector provided by INDOTEL: www.indotel.org.do

Even though the telecommunication industry as a sector has been growing, the market for telephone sets in the Dominican Republic experienced a 45 percent decrease in 2003 as a result of the economic problems, which the country experienced due to a banking crisis and a 100 percent depreciation of the local currency. Nevertheless, in 2004 the market for these products recuperated and increased 52 percent over 2003. Industry experts expect that the market for telephone sets will increase by 20 percent per year over the next three years.

DOMINICAN MARKET FOR TELEPHONE SETS				
US\$ MILLIONS*				
	2002	2003	2004	2005 (e)
Total Market Size	53.7	29.0	44.2	53.0
Total Imports	53.7	29.0	44.2	53.0
Total local production	0.24	0.10	0.78	0.40
Total exports	0.24	0.10	0.78	0.40
Imports from the U.S.	37.6	20.3	31.0	37.0

***Figures are unofficial estimates based on interviews with industry representatives, and statistical data retrieved from the National Trade Data Bank (NTDB) and the General Directorate of Customs of the Dominican Republic.**

For the purpose of this report, the market for telephone sets should be divided in two sub-sectors:

1. Telephone sets used in the fixed lines; and
2. Mobile phones (cellulars).

In the sub sector of fixed telephony, we can find two kind of equipment: the telephone sets that are terminals of a proprietary phone system and the conventional telephone sets. Verizon (U.S.) is the dominant carrier of the fixed telephony with 84 percent of all the installed fixed lines. This American company offers two phone systems to their business clients and to some extent to their upper class residential clients: a proprietary Nortel (Canada) phone system, in which only Norstar's telephone sets can be used as terminals; and the Avaya (U.S.) phone system, which is a hybrid system that is more flexible, provides interoperability, allows the connection of conventional sets, and allows the migration to VoIP. As a result, the hybrid phone system technology is becoming the favorite of the end-users, thus limiting the market potential of the terminal telephone sets. By installing a hybrid phone system the end-users are able to connect many types of conventional sets and to expand to accommodate more telephone sets without the need for costly upgrades. Many companies are changing to the hybrid system, which would increase the market potential of the conventional telephone sets. In the Dominican market, there is an ample variety of conventional telephone sets; from the less sophisticated, low-cost Asian imports, to cutting edge technologies that include motion sensors, cameras and VoIP software. As indicated in the following table, the number of fixed lines is increasing but not at the same rate as in previous years .



FIXED TELEPHONY	Year 2001	Year 2002	Year 2003	Year 2004
Number of residential lines	615,769	602,245	603,937	630,105
Growth rate	-	-2.20%	0.30%	4.30%
Number of business lines	257,604	246,783	254,241	263,634
Growth rate	-	-4.20%	3%	3.70%
TELEDENSITY	11.80%	10.60%	10.50%	10.60%

In the sub-sector of wireless telephony, the Dominican market is extremely competitive, with four carriers currently in the market. Verizon (formerly Codetel) began its wireless operations in 1987; Tricom in 1992 (Dominican and U.S.); and in 2000, two new operators initiated service: France Telecom's Orange and Centennial Communications (U.S.)

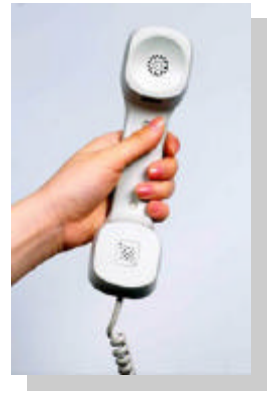
The coverage of the cellular networks reaches approximately 90 percent of the country. Cellulares operate in the Dominican Republic at 800 and 1900 MHz frequency (which is the North American standard) using 3G CDMA and GSM technologies (Orange).

During the initial introduction of cellular technology, when only one company dominated the industry, users were limited to top executives of corporations, high-ranking government officials and elite members of the society because of the high subscriber cost. The introduction of Personal Communication Systems (PCS) services, the implementation of "Calling Party Pays", and the multiple marketing plans offered by the operators have made the cellular sector a dynamic, competitive and growing sector.

The sub-sector of mobile phone (cellulares) is the one that shows more growing potential (please see below table). This is especially true for digital celulares with the capability of: multimedia messaging service, downloading of ring tones and logos, picture taking, Internet access, instant messaging, location based services, etc. The second largest supplier of mobile services (Orange) has recently launched a new location based service (LBS) that extends the mobile phone from a communication to tracking device. This LBS allows for: the integration of a car alarm system, a vehicle tracking service that makes the use of combined Global Positioning System (GPS) and GSM technologies to track the location of a vehicle or multiple vehicles. In addition, the system informs of a possible break-in and disables the vehicle. Some countries have regulations controlling the use of celulares with picture taking capabilities, but in the Dominican Republic no such regulations are in place. However, the authorities prohibit the use of celulares while driving a vehicle without the use of a hands-free device.

WIRELESS TELEPHONY	Year 2001	Year 2002	Year 2003	Year 2004
Number of analog celulares	438,747	305,282	228,995	129,486
Growth Rate	-	-30.40%	-25.00%	-43.50%
Number of digital celulares	831,335	1,395,327	1,862,919	2,404,577
Growth Rate	-	67.80%	33.50%	29.10%
WIRELESS GROWTH RATE	-	33.90%	24.80%	19.40%
WIRELESS TELEDENSITY	15.7%	19.9%	24.5%	28.8%

The Dominican market is almost 100 percent import-dependent. There is some local production of conventional telephone sets, but it is located in the Free Trade Zone sector. FTZ manufacturers are mandated to export no less than 80 percent of their total production, and the products that stay in the local market (no more than 20 percent) have to pay duties and taxes as any other imported products. As a result, very little of the locally manufactured telephone sets stay in the Dominican market.



The Dominican market is highly price sensitive. U.S. companies interested in this market should try to focus on price competitiveness and offer cost effective solutions, but should not forget to offer adequate technical support.

Major brands present in the market: Samsung, LG, Kyocera, Boss, Motorola, Siemens, Nokia, Sony Ericsson, Toshiba, and Panasonic.

Market Entry

Foreign suppliers of conventional telephone sets for the residential segment of the market are currently selling their products without appointing a local distributor or agent. However, for the sale of cellars and terminals telephones, the common practice is to designate a local distributor or agent. Local distributors are able to provide technical support, offer guarantees, and maintain inventories of parts and accessories. These importers and distributors usually have sales agents who distribute the products to small retailers throughout the country, and many also have their own outlets.

The U.S. Commercial Service offers excellent programs to help American companies identify potential distributor. For more information on services available to U.S. business please visit our website: www.export.gov/caribbean

Before appointing an agent or a distributor in the Dominican market, U.S. exporters should become familiar with Dominican Law 173, which regulates the relationship between foreign and local companies. This law is designed to protect Dominican citizens who work as agents or distributors for foreign companies. Law 173 establishes and provides substantial penalties for foreign firms who unilaterally terminate contracts with local distributors or agents without “just cause”. Interested companies may request a copy of the Law 173 from the U.S. Commercial Service at the U.S. Embassy in Santo Domingo.

Note: U.S. suppliers should stay in close contact with their agent/distributors; be flexible on order size, and credit terms (after having a satisfactory payment history); and visit the local agent/distributor on a regular basis. A list of attorneys who can provide legal counsel on Law 173 is also available from the U.S. Commercial Service in Santo Domingo.



Market Access

The general import climate in the Dominican Republic is very favorable. The dollar exchange rate has stabilized over the last six months and importers can obtain hard currency easily.

Telephone sets imported into the Dominican Republic do not need to go through a registration process with the local authorities as long as they are in accordance with international practices in World Zone Number 1, to which the country belongs.

Import duties levied on all telecommunication equipment is 3 percent of the CIF price (Cost+Insurance+Freight). Other taxes collected at Customs are: Exchange Surcharge (13 percent), and a 16 percent VAT called Tax to the Transfer of Industrial Products and Services (ITBIS).



To help with the calculation of taxes and fees applicable to telephone sets we have prepared the following example for a product with a price of US\$100.

DESCRIPTION	BASE	TAX/FEE
Product Price	US\$100.00 = RD\$2,856.00*	
Freight & Insurance Fee (average 8% of price)	RD\$2,856.00	RD\$228.48
CIF Price	RD\$3,084.48	
Import Duty: 3% of CIF	RD\$3,084.48	RD\$92.53
Exchange surcharge: 13% of CIF	RD\$3,084.48	RD\$400.98
ITBIS: 16 percent of CIF + Import Duty + Exchange surcharge	RD\$3,577.99	RD\$572.48
Freight Forwarders fees (1.5% of CIF)	RD\$3,084.48	RD\$46.27
TOTAL TAXES AND FEES		RD\$1,340.74 = US\$46.95
TOTAL LANDED COST (Total Taxes and fees + Price)	RD\$4,196.74 US\$146.94	

(*) Official Exchange rate at Dominican Customs is 1 US\$ = RD\$28.56 (as of 5/03/05). All taxes are collected in Dominican pesos.

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